THE FULL SPECTRUM

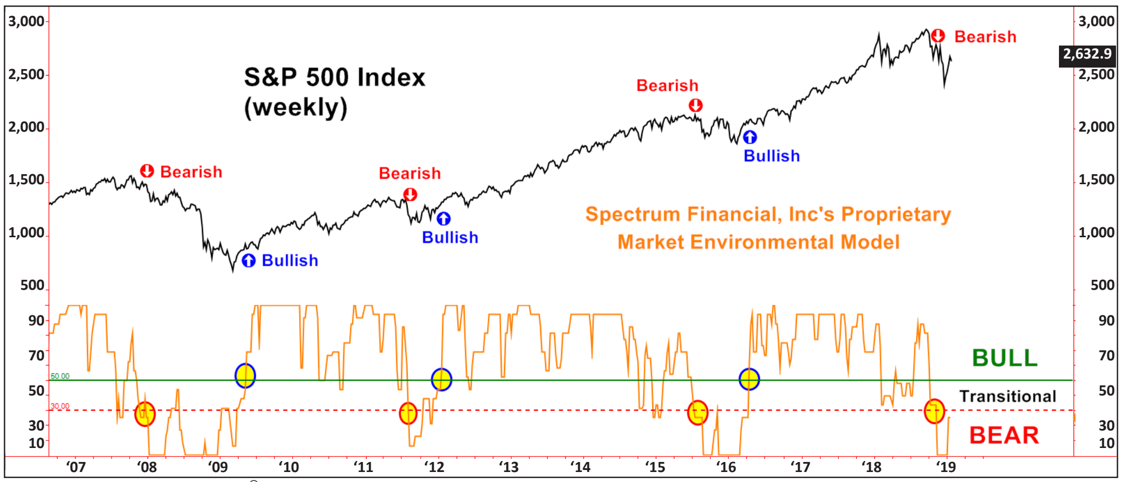
Spectrum Financial, Inc.

January 2019

GENERAL MARKET COMMENTARY

Stocks sold off for one of the worst December results in nearly 90 years, only to be followed by an exceptionally strong rally in January. Much of the month's decline was recovered after Federal Reserve chairman Jerome Powell indicated that rate increases in 2019 are not certain.

We recognized an increase in risk when our proprietary market model dropped from a bullish to a bearish market environment in early November, as the chart below illustrates. There are four components used to determine our trading strategies and risk exposure to stocks: 1. Momentum and moving averages of major equity indexes, 2. Weekly Directional Movement Index, which defines the quality of the trend, 3. Negative Leadership Composite as defined by *InvesTech Research,* and 4. Spectrum's High Yield Bond tactical signals, which give insight into the health of the economy. With this information we adjust our risk exposure and trading styles. It currently is very close to giving us a new buy signal, which would cause us to increase exposure to equities. High yield bonds have sprung back impressively and often are a leading indicator to future stock prices.



SPECTRUM'S HIGH YIELD STRATEGY VS. STOCKS

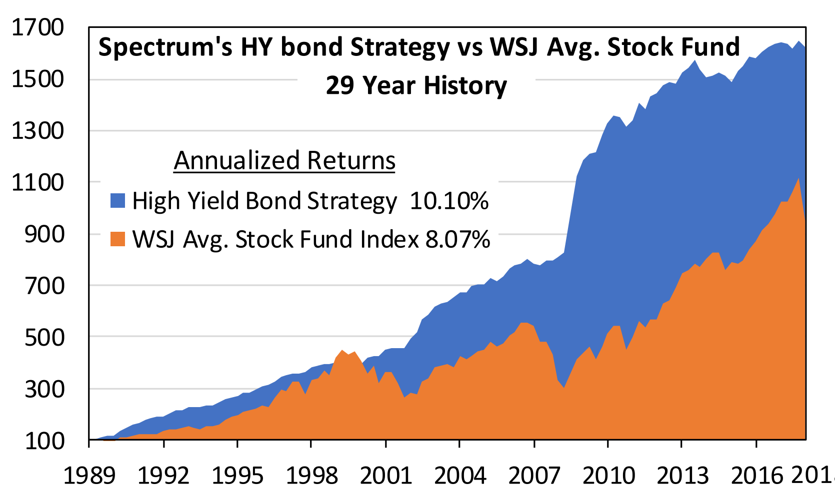
Spectrum has been trading high yield bonds for well over 30 years, and in fact, our first quarterly *The Full Spectrum* newsletter was published in January 1988. Every single newsletter since then (this is #125) has had our philosophy printed on the last page: "*Steady plodding brings prosperity; hasty speculation brings poverty.*" *(Proverbs 21:5)*

Our actual track record can be seen in the chart below, and it is compared to the WSJ Avg. US Stock Fund Index for the past 29 years. We have discovered that preservation of principal is key to compounding wealth. We have asked ourselves over the years "why take risks in volatile stocks when we can produce comparable returns trading high yield bonds?"

Years with modest returns may seem boring to some, but over time, compound interest produces exponential growth. A $10,000 investment in 1989 would be worth about $160,000 today.

While this chart does not assure what might happen in the future, it is significant to observe the fact that our maturity and experience trading high yield bonds should give investors confidence that we may continue to produce meaningful returns while reducing risk. An investor should not invest in anything where the risk involved can change his or her lifestyle or standard of living. We have implemented these strategies in all the funds we manage to attempt to produce positive returns while minimizing risk.

High Yield Bond Strategy performance calculations are based on actual client accounts having dividends reinvested, no purchases or withdrawals during the period, and may have been obtained from personal or related accounts. The management fee is .48% per quarter beginning 12/31/10 to present, prior .50% and is reflected in the calculated performance. The initial commission on funds is not taken into account but could reduce performance. Some performance may vary due to fund restrictions and/or limitations imposed by the mutual fund families. Past performance does not guarantee future results. Current performance may be lower or higher than data quoted. Investors should obtain the fund prospectus and read it carefully to evaluate the fund's investment objectives, risks, charges, and expenses before investing. The WSJ's Avg. Stock Fund Index (an arithmetic average of all US domestic equity mutual funds) is used as a comparison.



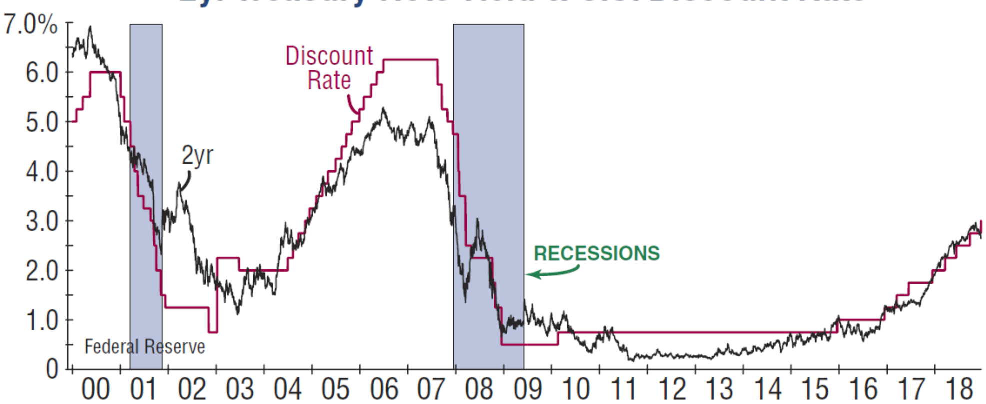
INTEREST RATES!

A concept worth paying attention to in the financial community in recent history has been: "Don't fight the Fed!" The Federal Reserve has the job of controlling short term interest rates and the availability of liquidity in the financial community. Lowering interest rates and increasing credit available to banks helps increase consumption and speeds up the economy. Increasing rates is one of the main tools that the Fed uses to keep inflation under control and to keep housing out of a bubble as happened a decade ago, which caused the worst economic collapse since the depression.

Federal Reserve Chairman Jerome Powell once more raised interest rates in December. Since 2015, the Fed has raised the discount rate nine times. Powell's comments in December, however, negatively affected the markets, as he implied that there would be more rate increases on the horizon for 2019. His stance changed in January as he indicated "we will be patient" concerning raising rates for 2019. This produced a substantial stock market rally that did not recover all the losses.

The combination of a declining growth outlook and an increasingly negative monetary climate has generally had dire consequences. Out of the past 11 tightening cycles, nine have resulted in a recession, while only two have led to an economic soft landing (see table below, right). This economic expansion is already the longest in history.

2yr Treasury Note Yield & U.S. Discount Rate



InvesTech Research

Fed Tightening Cycles*

Date	Recession	Soft Landing
1955-57	✔	
1958-60	✔	
1963-66		✔
1967-70	✔	
1973-74	✔	
1977-80	✔	
1980-81	✔	
1987-90	✔	
1994-95		✔
1999-01	✔	
2004-07	✔	
2015-??	?	?

*2 or more consecutive rate hikes

InvesTech Research

PERSONAL PERSPECTIVE *by* Ralph Doudera

I often go to my favorite place on St. Teresa beach in Costa Rica, where I can get alone and contemplate the issues of life as I watch the breaking waves from my swing chair and have a dialogue with God about my next assignment. I find this time together to be helpful to put life into perspective and be encouraged. Making the effort to hear from God is not something I have a natural inclination to do, as often my life has episodes analogous to going over Niagara Falls in a barrel. But hearing from Him requires practice and discipline, and yes—a bit of faith, because you have to believe he will answer, or you wouldn't ask in the first place.

So after calmly reflecting on my life, it was time to return home and drive the dusty back roads to catch my commuter flight. But the main road is closed for construction, and there are no detour signs. I head down the dirt backroads through the mountains and rivers to get to the airstrip and get totally lost after a long drive. There are no people driving here, no houses, no internet, no navigation. Expletive! I don't think that was a prayer. There are two things which causes me to get dysfunctional—deadlines and getting lost! Is this a character test? Having no idea which way to go, I got frustrated and upset, and just sat there for a long, long time. Why didn't I ask for supernatural help? Pride? Probably. Wait, here comes a guy driving a motorcycle and I run out into the road and stop him, trying to explain that I need his help in a language he doesn't understand. It turned into a job interview and I hired him and successfully followed him to the airstrip. Then, unloading my briefcase, I noticed two different books on prayer sticking out of it. God wants a two-way conversation, and I have found out I don't hear much when I am talking or complaining. I was reminded of a favorite Bible verse: *"Call to me and I will answer you. I'll tell you marvelous and wonderous things that you could never figure out on your own." Jeremiah 33:3.* I need to remember that and keep connected when I am lost, when offended, and when the financial markets are in freefall. I need to ask for help and listen more, even with the little things.

"Steady plodding brings prosperity; hasty speculation brings poverty" (Proverbs 21:5, LB)

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